Massachusetts Electric
A National Grid Company

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Counsel

May 13, 2003

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

Re: DTE 02-79

Dear Secretary Cottrell:

On behalf of Massachusetts Electric Company and Nantucket Electric Company (collectively "Mass. Electric" or "Company"), I am submitting this letter in response to the Attorney General's May 6, 2003 letter brief regarding the Company's January 1, 2003 Retail Rate Filing. The Attorney General stated that its sole dispute with the Company's filing was the Company's request to recover an estimated $2.1 million associated with the reclassification of customers from Default Service to Standard Offer Service. In this letter, Mass. Electric sets forth its disagreement with the Attorney General's contention that the cost incurred to provide generation service to this group of customers was due to a mistake on the Company's part, and suggest that the Company should be permitted to recover the costs it incurred to serve these customers.

The Attorney General is incorrect that the misclassification occurred as a result of Company mistakes. The misclassifications occurred for a number of reasons, many of which were beyond the Company's control. See Exhibit DTE 1-3. In June of 1998, Mass. Electric filed with the Department Standard Offer Eligibility Guidelines ("Guidelines") that had been accepted by interested customer groups. Exhibit DTE 1-3. Mass. Electric used these Guidelines when customers called for service, and relied on information provided by the customer to determine the customer's eligibility for Standard Offer Service. Id. When customers spoke with the Company's customer service representatives to establish service, customers with a credit issue or an outstanding balance often did not wish to tell the Company that they had had previous service with the Company. Id. Also, customers often did not provide complete information to the Company in cases of divorce, domestic violence, or name changes. Id. Thus, even though the Company requested information in order to place a customer on the proper service, at times information provided by the customer may have been insufficient to determine that the customer should have been placed on the Standard Offer Service. Additionally, the Guidelines, as originally filed in 1998, allowed a customer to remain on the Standard Offer Service rate if the customer had a ninety-day break in Standard Offer

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Service. Id. In January 2001, almost two years after the policy was put into place, the Company voluntarily expanded this time period to 180 days, at the Department's request. Id. In 2002, when the Company reviewed and identified misclassified customers pursuant to the lawsuit, the Company included all customers who had a break in service of less than 180 days. (This analysis included many customers who were appropriately receiving Default Service, because they had moved or had a break in service greater than ninety days which would have led to default service under the original Guidelines in effect at that time they requested service.) The Company estimated that the expansion of eligibility for Standard Offer Service from a ninety-day break in service to 180 days increased the number of misclassified customers by more than 25%. Id.

The settlement of the class action lawsuit regarding Standard Offer eligibility, and the reclassification of plaintiffs from Default Service to Standard Offer Service, is not evidence that the Company was at fault or in any way acted unreasonably by initially putting those customers on Default Service. On the contrary, the Stipulation and Agreement of Compromise and Settlement, dated June 20, 2002 in the class action lawsuit regarding Standard Offer eligibility, specifically provides that the Company believed that it had valid defenses to all of the plaintiffs' claims, and agreed to settle the lawsuit in order to avoid the time, expense, and risk of litigation. Exh. AG 1-7, Stipulation and Agreement of Compromise and Settlement, dated June 20, 2002, pp. 3-4. In the court's order approving the settlement, the court recognized that the Company had not admitted any fault or omission in the proceeding and expressly stated that neither its order nor the settlement were evidence of fault. Exhibit AG 1-7, Order and Final Judgment, dated December 4, 2002, pp. 3-4. [1]

When receiving requests for service, Mass. Electric placed customers on Standard Offer Service or Default Service based on the best information that it had at the time. Such information was not created by Mass. Electric, but rather was provided by customers, and Mass. Electric used this customer-provided information in determining the appropriate service for the customer. In accordance with its obligation to provide power to these customers, Mass. Electric purchased power in good faith under its Standard Offer Service and Default Service contracts. When the Company subsequently learned that some Default Service Customers were in fact eligible for Standard Offer

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[1] Specifically, the court stated:

> Neither this Order and Final Judgment, nor the settlement proceedings, nor the settlement negotiations, nor any related document, shall be used as an admission of any fault or omission by defendants or be offered or received into evidence as an admission, concession, presumption, or inference of any wrongdoing by defendants in any proceeding other than such proceedings as are necessary to consummate or enforce the Stipulation.

Exhibit AG 1-7, Order and Final Judgment, dated December 4, 2002, pp. 3-4.

Service, the Company switched them over and adjusted their accounts retrospectively, leaving the shortfall of approximately $2.1 million.

The Company does not profit from the provision of Default Service or Standard Offer Service. Rather, the Company's rates and reconciliation mechanisms are designed to assure that customers pay no more, and no less, for Default Service or Standard Offer Service than the Company itself incurs in providing those services. The Company should not be barred from recovering legitimate costs it incurred in good faith, given the reasons for misclassification discussed above. Therefore, it is appropriate for the Company to recover this amount through the Default Service Adjustment Factor, which was designed to enable the Company to recover the costs of providing Default Service not otherwise covered by the Company's rates and revenues.

For these reasons, the Company respectfully requests that the Department reject the Attorney General's arguments, and approve the rates proposed in the Company's January 1, 2003 Retail Rate Filing.

The Company appreciates the opportunity to provide these reply comments. Thank you very much for your time and attention to this matter.

Very truly yours,

Amy G. Rabinowitz

cc: Service List